



County of San Diego Treasurer-Tax Collector



Investment Policy and Reporting
Lisa Marie Harris, Chief Deputy Treasurer
November 20, 2008



County of San Diego Investment Pool



Pool Overview

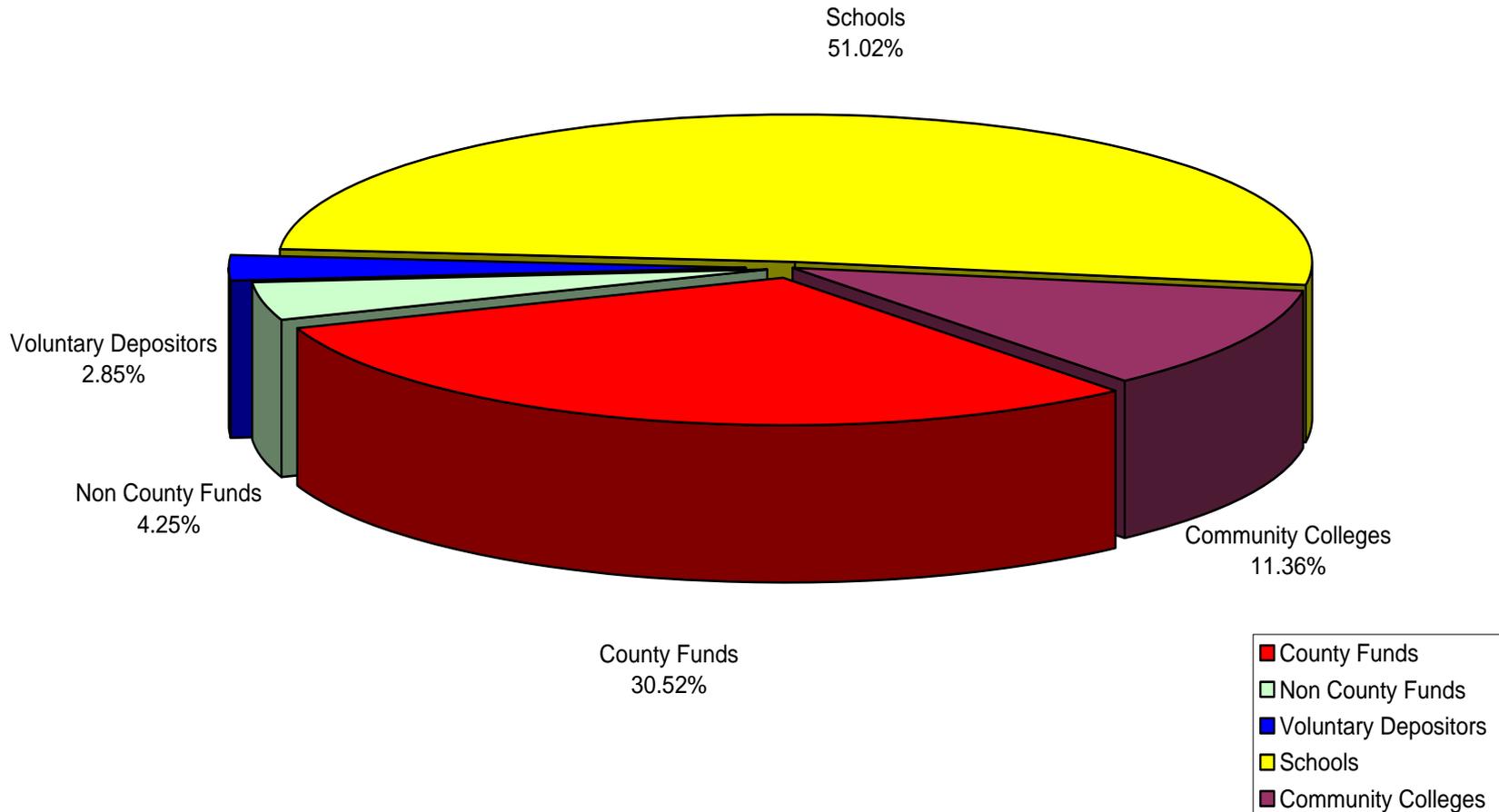
❖ STATISTICS

- Standard & Poor's rating of AAf (highest rating)
- Pool segregated into two portfolios to improve performance
 - Liquidity portfolio
 - Incremental yield portfolio
- Weighted average yield to maturity of 3.0%
- Weighted average days to maturity of 177
- \$4.9 billion under management as of March 31, 2008
- All-time peak balance of \$5.9 billion reached in April
- Management of over 340 banking accounts for Pool participants



Pool Participants

San Diego County Pooled Money Fund
as of September 30, 2008

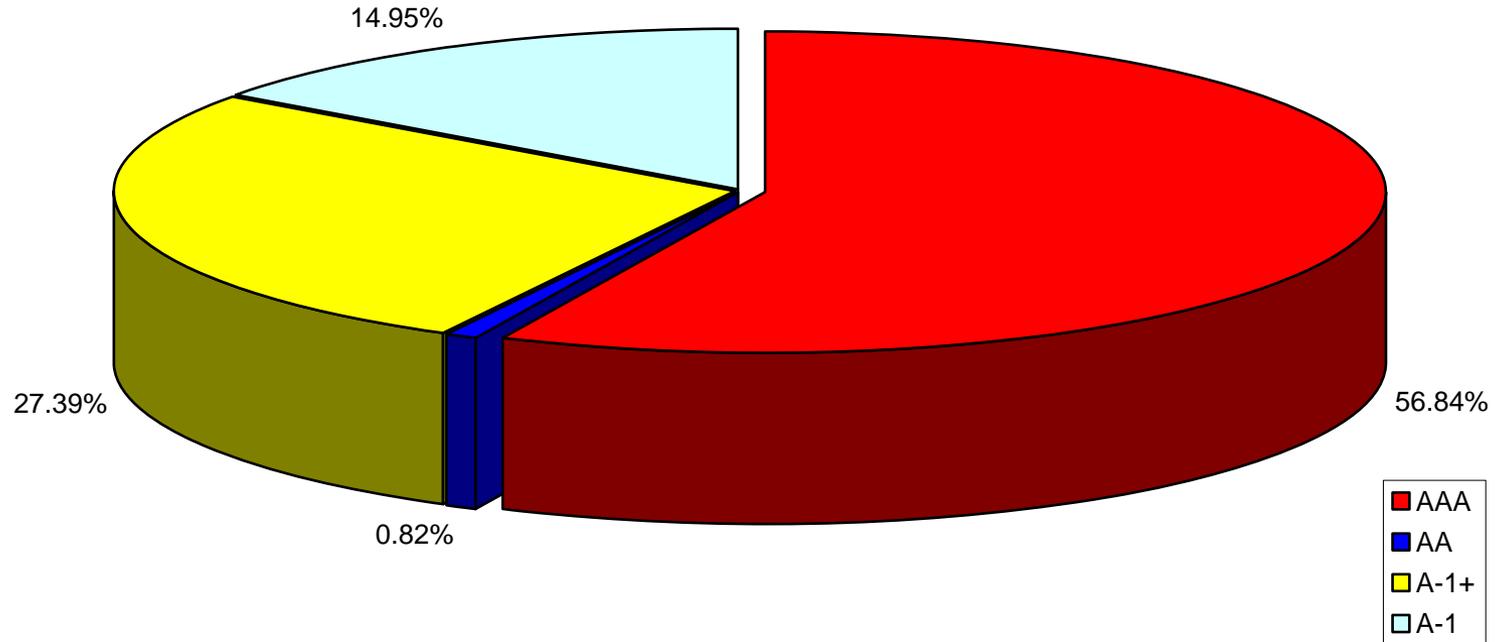




Pool Characteristics

❖ The Pool has sustained excellent credit quality over the past nine years.

San Diego County Pooled Money Fund
As of September 30, 2008



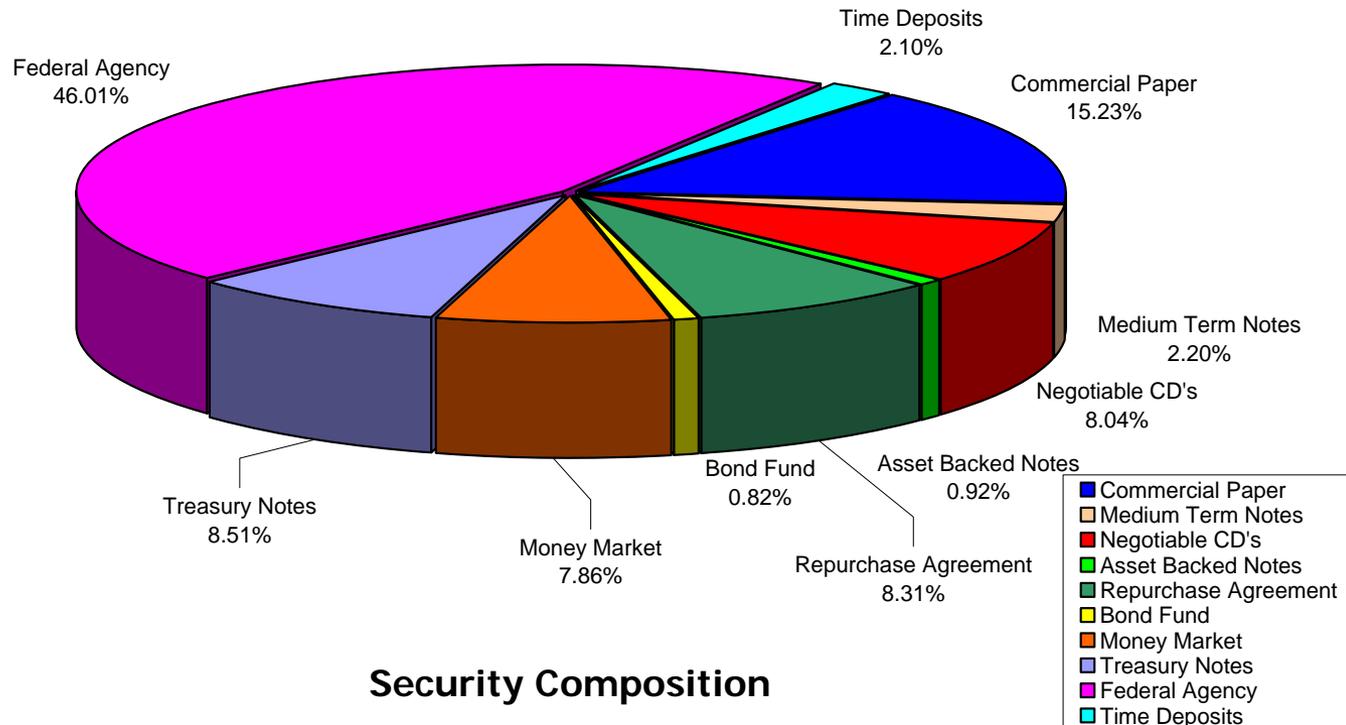
Credit Quality



Pool Characteristics

❖ The Pool is well diversified across sectors and maturities.

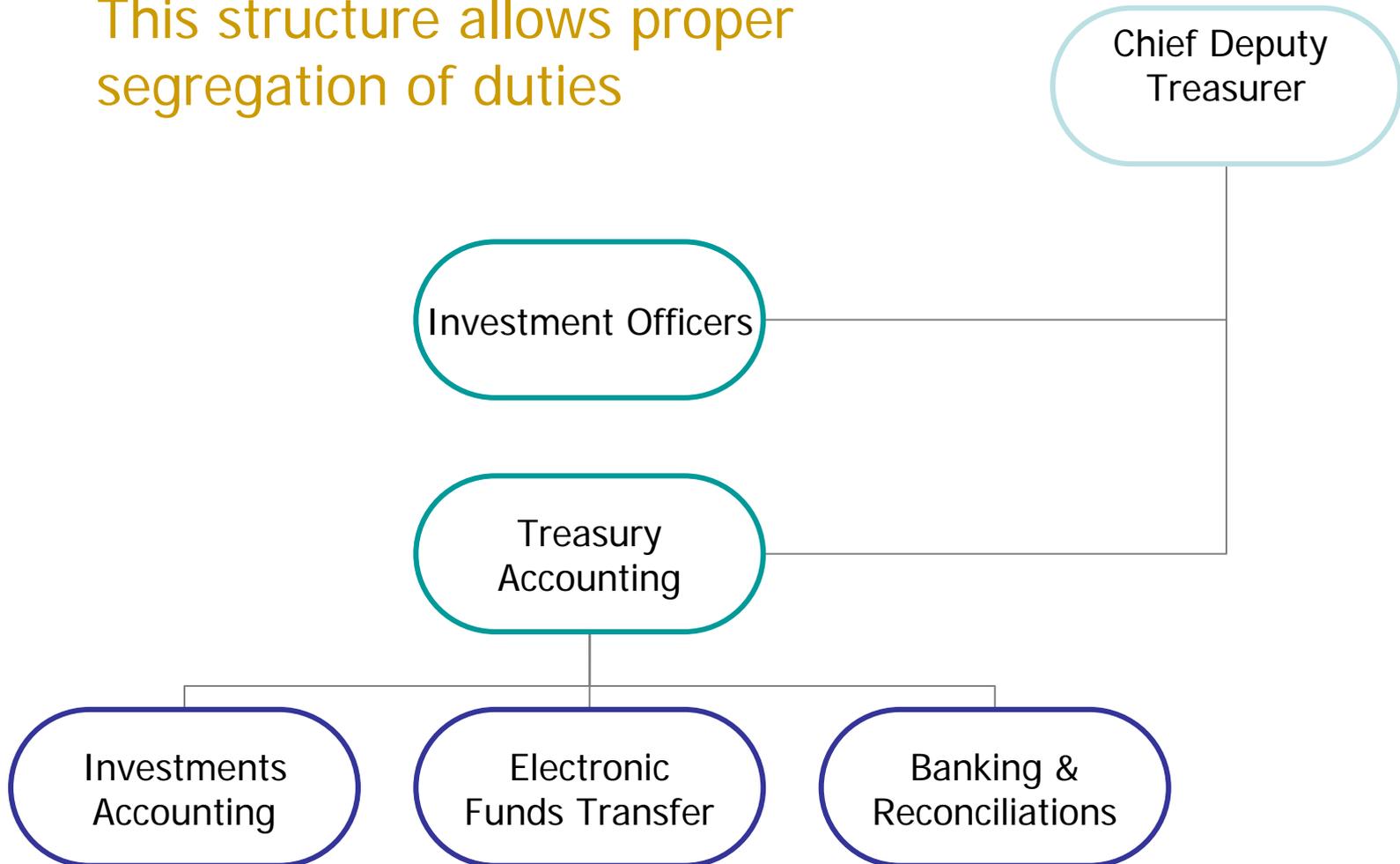
San Diego County Pooled Money Fund
as of September 30, 2008





Treasury Organization

This structure allows proper segregation of duties





Investment Policy

❖ Investment Policy

- Developed in accordance with Government Code
- Reviewed and updated annually
- Formally approved by the Treasury Oversight Committee and the Board of Supervisors.
- Primary goal is to safeguard the principal of the funds under the Treasurer's control.
- Secondary objective is to meet the liquidity needs of the participants.
- Third objective is to achieve an investment return within parameters of prudent risk management.



Investment Policy

❖ County of San Diego's Investment Policy: Three Primary Sections:

1. Pool Policy

- Security of Principal Policy
- Liquidity Policy
- Return and Maturity Policy
- Prohibited Securities
- Credit Rating Policy
- Internal Controls



Investment Policy

❖ County of San Diego Investment Policy cont.

2. Permissible investments

- Government and Local Agency Obligations
- Commercial Paper, Medium term notes
- Negotiable Certificates of deposits
- Repurchase Agreements
- Money Market funds
- Local Agency Investment Funds



Investment Policy

❖ County of San Diego Investment Policy cont.

3. Other Policy Topics

- Illiquid Limitations
- Maximum Exposure for any one issuer
- Criteria for selecting brokers and dealers
- Delegation of Investment Authority to the County Treasurer
- County Treasury Oversight and Annual Audit
- Reporting
- Glossary of Terms



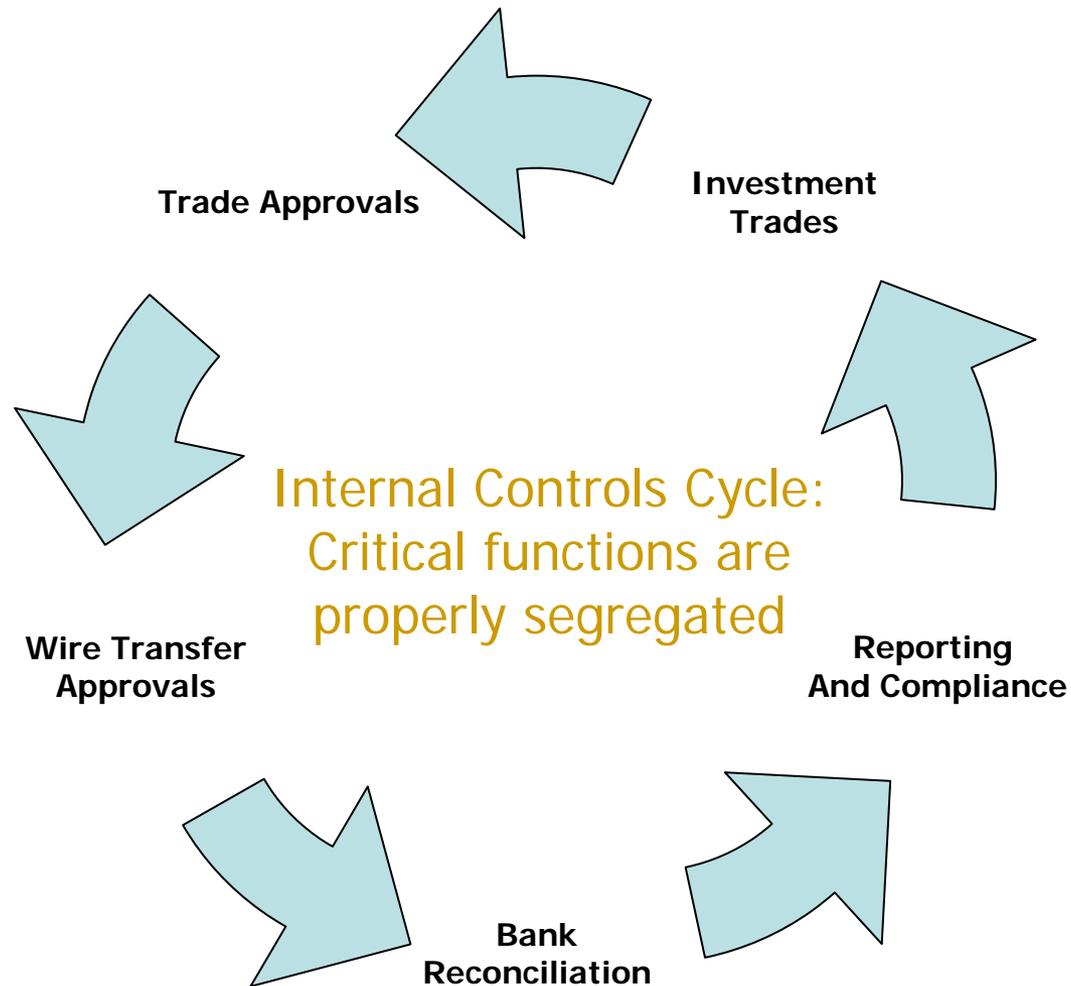
Investment Reporting

Investment Manual

- o Developed by Chief Deputy Treasurer to formalize internal control structure
- o Reviewed and updated annually
- o Formally approved by Treasury management and Treasurer Tax-Collector
- o This is a living, operational document followed by Investments staff on a daily basis which documents our on-processes including daily, weekly, monthly, and annual reporting.



Investment Life Cycle





Control Environment

- ❖ **Internal controls are instilled in the Treasury culture**
- ❖ **Reporting are integral to the control environment**
 - **Weekly management review of investment strategy**
 - **Management involvement in revisions to Treasury Manual**
 - **Training and staff development are highly encouraged by all levels of management**
- ❖ **Internal controls are the common defenses against Fraud and the means for safe guarding tax payer dollars.**

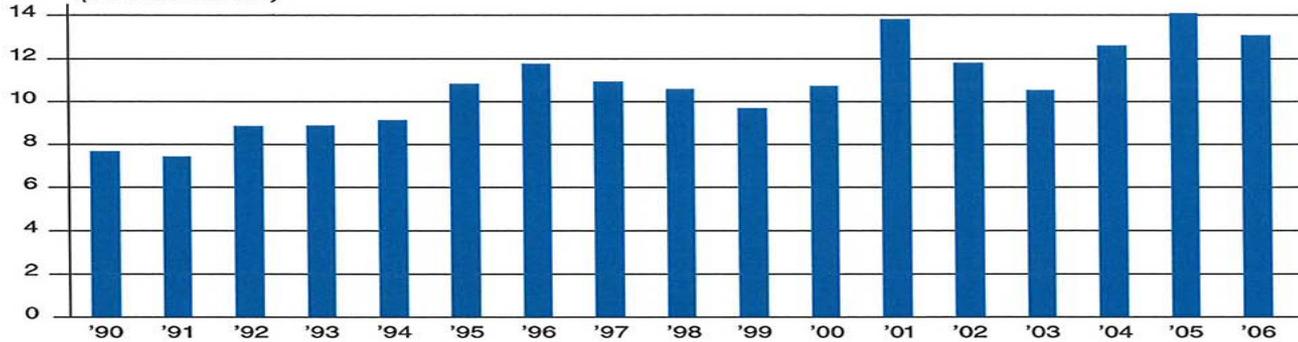


Number of Embezzlement Cases Increasing

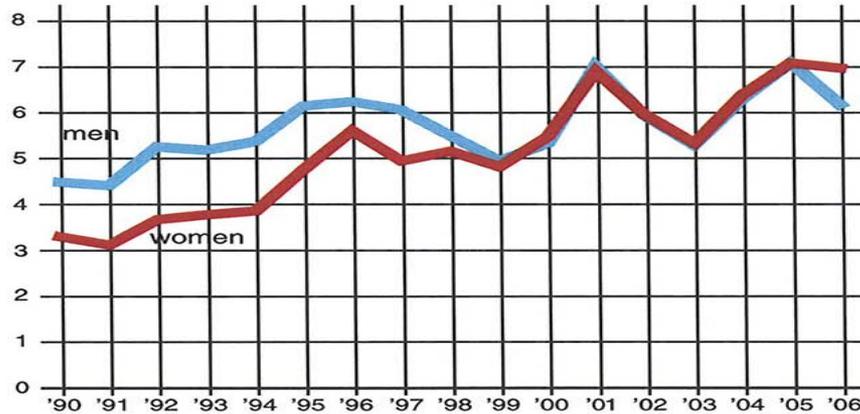
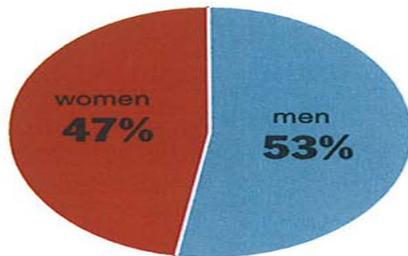
- ❖ Most trusted employee could be greatest threat according to industry experts.
- ❖ Embezzlement arrests are up 70% since 1990.
- ❖ National White Collar Crime Center estimates employee theft can cost \$20 - \$90 billion annually.
- ❖ Experts say embezzlement can start with greed or financial need but its allowed by too much trust and lack of oversight.
- ❖ Lack of oversight is a consistent thread to embezzlement according to authorities.

Embezzlement: By the numbers

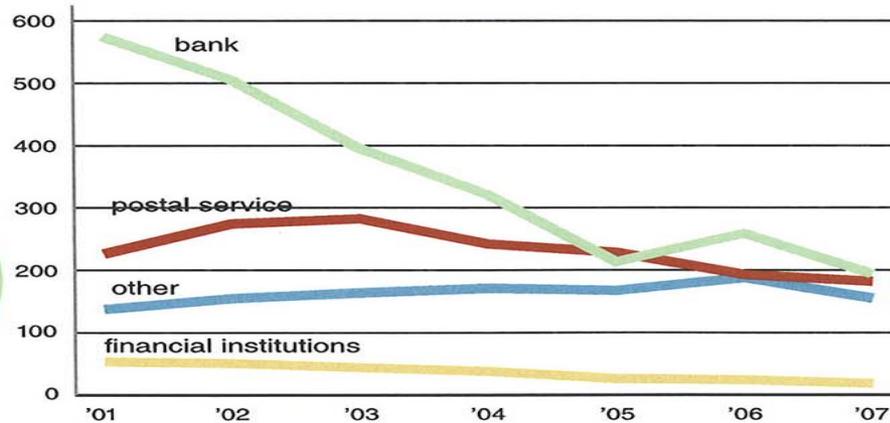
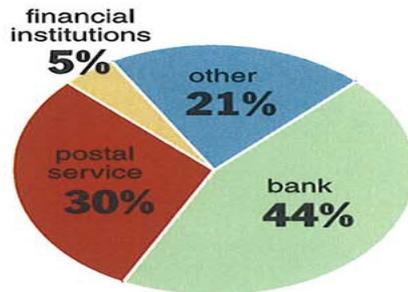
Total number of arrests for embezzlement from 1990 to 2006.
(in thousands)



Now women are arrested more often
(Total arrests in thousands from 1990 to 2006)



Number of criminal cases tried by type
(From 2001-2007)



Source: National White Collar Crime Center

Thomas Marsh/The Herald-Dispatch



Control Related Policies and Procedures

- ❖ Authorization
- ❖ Properly Designed Records
- ❖ Security of Assets and Records
- ❖ Segregation of Incompatible Duties
- ❖ Periodic Reconciliations
- ❖ Periodic Verifications
- ❖ Analytical Review
- ❖ Timely Preparation of Financial Reports in Accordance with GAAP



Reporting & Internal Controls

- ❖ Daily trade activity review
- ❖ Daily investment posting review
- ❖ Monthly compliance review by independent financial advisor
- ❖ Monthly review of investment reports
- ❖ Monthly review and approval of reconciliations
- ❖ Independent annual audit of Comprehensive Annual Financial Report



Communication of Information

❖ **Daily flow of information between:**

- Investment Officers
- Investments Accounting
- Wire Transfers Accounting
- Custodial Bank

❖ **Regular, periodic reporting**

- Monthly reporting to Pool participants
- Quarterly reporting to Board of Supervisors
- Monthly reporting to Auditor and Controller
- Annual audited financial statements posted for the public



Assessing Internal Controls

- ❖ **Risks should be reviewed on many different levels**
- ❖ **Both management and operations staff should be involved in risk assessment on a regular basis**
 - Interactive weekly strategy meetings to review investment performance and objectives
 - Annual review and update of internal controls for Treasury Manual
 - Ongoing testing and monitoring of internal controls
 - Annual review and update of Investment Policy



Staff Development Key !

❖ Treasury Sponsored Seminars

- Investment Symposium
- Debt Symposium
- Fraud Prevention Seminar
- Cash Handling Certification
- Wire Transfer Administration Training

❖ Professional Organization Training

- GFOA Internal Controls/Financial Reporting
- CSMFO Monthly Luncheons
- CMTA Annual Conference
- CACTTC Annual Conference
- Accounting Day – San Diego



Summary of Key Issues

- ❖ **Annual Review and Adopt Investment Policy**
- ❖ **Management must be committed to Reporting and internal controls**
- ❖ **Internal controls must be documented and monitored**
- ❖ **Risk assessments must be performed on a regular basis**
- ❖ **Reconciliations and verifications must take place in a timely manner**